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11
12 **UNITED STATES DISTRICT COURT**

13 **CENTRAL DISTRICT OF CALIFORNIA**

14 UNITED STATES OF AMERICA,
15
16 Plaintiff,

17 v.

18 OLYMPIA HEALTH CARE LLC,
ALECTO HEALTHCARE SERVICES,
19 LLC, MPT OF LOS ANGELES, L.P.,
MPT OF OLYMPIA, LLC, MPT
20 OPERATING PARTNERSHIP, L.P.,
MEDICAL PROPERTIES TRUST,
21 INC., SHERMAN/GRAYSON
HOSPITAL, LLC, ALECTO
22 HEALTHCARE SERVICES
SHERMAN, LLC, LAXMAN REDDY,
23 MATTHEW WILLIAMS, and
24 JEREMY REDIN,

25 Defendants.
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Case No. 2:23-cv-01783-ODW-PVC

**JOINT STATUS REPORT
CONCERNING CLAIMS AGAINST
DEFENDANTS OLYMPIA
HEALTH CARE LLC, ALECTO
HEALTHCARE SERVICES LLC,
SHERMAN/GRAYSON HOSPITAL,
LLC, ALECTO HEALTHCARE
SERVICES SHERMAN, LLC,
LAXMAN REDDY, MATTHEW
WILLIAMS, AND JEREMY REDIN**

1 Plaintiff United States of America (“Plaintiff”), Defendants Olympia Health
2 Care LLC, Alecto Healthcare Services Sherman, LLC, Laxman Reddy, Matthew
3 Williams, and Jeremy Redin (collectively the “Alecto Defendants”), by and
4 through their undersigned counsel, submit this joint status report as ordered by the
5 Court (Doc. No. 30) in light of the Alecto Defendants’ insurance coverage dispute
6 and the bankruptcy filings and consequent automatic stay of this litigation against
7 Defendants Sherman/Grayson Hospital, LLC (“Sherman Hospital”) and Alecto
8 Healthcare Services LLC (“Alecto”) (collectively, “Bankrupt Defendants”).

9 1. With regard to Defendants MPT of Los Angeles, L.P., MPT of Olympia,
10 LLC, MPT Operating Partnership, L.P., and Medical Properties Trust, Inc., on
11 October 20, 2023, Plaintiff dismissed its claims, without prejudice, against them
12 (Doc. No. 35).

13 2. Plaintiff and the Alecto Defendants (collectively, the “Parties”) report, as
14 detailed below, that a continued stay of the litigation is warranted because of (1)
15 the Bankrupt Defendants’ ongoing bankruptcy proceedings, along with (2) the
16 Alecto Defendants’ ongoing dispute with their insurer.

17 3. With regard to the bankruptcies:

18 a. Plaintiff’s claims against the Alecto Defendants are significantly
19 impacted by the Alecto and Sherman Hospital bankruptcies. The Alecto
20 Defendants and the Bankrupt Defendants filed their Answer to the Complaint on
21 May 11, 2023, over a month before Alecto and Sherman Hospital filed separate
22 Chapter 11 bankruptcy petitions on June 16, 2023, and June 23, 2023, respectively,
23 which are pending in two separate cases in the United States Bankruptcy Court for
24 the District of Delaware. Sherman Hospital has identified a purchaser and remains
25 in operation during the bankruptcy. Alecto also continues to operate and seeks to
26 reorganize and emerge from bankruptcy.

27 b. While those bankruptcies continue to proceed, the Parties cannot predict
28 when they will be completed. Since the Parties’ previous Joint Status Report of

1 July 31, 2023 (Doc. No. 29), the bankruptcy proceedings have progressed to the
2 point where:

3 (1) Alecto's plan for reorganization has been proposed but the form of
4 notice for the solicitation of votes on the plan has not yet been approved, votes on
5 the plan have yet to be solicited, one of the largest creditors has objected to
6 Alecto's designation as a Subchapter V entity, and a hearing to seek bankruptcy
7 court approval of the plan has not yet been set; and

8 (2) in connection with anticipated sale of Sherman Hospital's assets
9 through the bankruptcy, the proposed purchaser entered into an interim
10 management agreement and is responsible for running the hospital until the sale
11 closes, which may occur in mid to late November; and a settlement between the
12 debtor, purchaser, and Official Committee of Unsecured Creditors has been
13 proposed – which would include the dismissal of the Sherman Hospital
14 bankruptcy, but the settlement has not yet been approved by the bankruptcy court
15 and the sale, which is a condition of any dismissal, has not yet been completed.

16 4. With regard to discovery in this case:

17 a. On June 23, 2023, Plaintiff filed the Parties' first stipulation to extend
18 time for the scheduling conference through September 18, 2023 (Doc. No. 22). On
19 June 26, 2023, the Court entered its Order granting the parties' stipulation for
20 continuance of the scheduling conference (Doc. No. 23). As a result, a scheduling
21 order has not been issued. Plaintiff continues to analyze and evaluate the impact of
22 the bankruptcies on its claims against the Alecto Defendants, including the effect
23 of the automatic stay on Plaintiff's ability to conduct discovery of information in
24 Alecto's custody and control, which necessarily hinders the ability to effectively
25 meet with the Parties' counsel, prepare a report to the court, and prepare for and
26 participate in a scheduling conference in court.

27 b. The Parties agree that much necessary discovery – most importantly from
28 Alecto – cannot occur without permission from the bankruptcy court. Specifically,

1 although the individual defendants Laxman Reddy, Matt Williams and Jeremy
2 Redin may have access to Alecto or Sherman Hospital's documents for conducting
3 business, the bankruptcy stay would not allow production of Alecto or Sherman
4 Hospital's documents in this litigation before this Court. Production of documents
5 in the bankruptcies would require hiring attorneys and support staff at substantial
6 expense. Those expenses would require approval by the bankruptcy court, which
7 at this moment cannot be ensured, and which would erode the bankruptcy estate's
8 assets of Alecto or Sherman Hospital for a potential recovery by Plaintiff.

9 5. With regard to the insurance coverage issues, Alecto Defendants and the
10 Bankruptcy Defendants are involved in ongoing conversations with their insurance
11 companies about potential insurance coverage for certain of Plaintiff's claims. The
12 Parties agree that the insurance coverage issues should be resolved before a
13 Rule 16 conference is held or scheduling order is issued. On December 5, 2022,
14 the Alecto Defendants tendered the claims that the United States later asserted in
15 the Complaint against the individual defendants to their primary and excess
16 insurance carriers. With cooperation from the United States, Alecto Defendants
17 provided a draft complaint to the primary insurance company for its review and
18 consideration on January 22, 2023. Despite follow-up from Alecto Defendants
19 with their insurance companies, the primary insurance company did not issue a
20 coverage decision until June 15, 2023. The coverage letter denied coverage for the
21 claim under the primary policy and under an excess policy issued by the primary
22 insurance company; the other excess policy follows form and the excess carrier
23 would have presumably followed that coverage decision. Alecto Defendants
24 disagreed with the primary insurance company's decision to deny coverage under
25 any of the policies and contested the denial.

26 On October 2, 2023, the primary insurance company agreed to withdraw its
27 declination of coverage, but continues to maintain a full reservation of rights
28 pending its ongoing investigation of the claim. Thus coverage could still

1 ultimately be denied. Still, this recent development could help facilitate a
2 resolution of this matter without further litigation as the Parties explore the
3 possibility for alternative dispute resolution, which could ultimately facilitate a
4 resolution of this matter while respecting judicial economy. Moreover, the
5 insurance policies at issue are eroding policies, meaning insurance money spent on
6 defense costs reduces the amount of money available for potential recovery by
7 Plaintiff. The Parties believe that continuing the stay pending resolution of the
8 bankruptcies and insurance coverage dispute is the most efficient and economical
9 method to resolve this matter at this time, along with the Parties' continuing to file
10 quarterly reports so the Court can evaluate the progress of the bankruptcy and
11 insurance dispute issues relative to the prosecution and needs of this case.

12 6. Plaintiff, however, reserves the right to move to lift any stay of this case by
13 this Court and resume litigation if Plaintiff, in its sole discretion, determines that
14 resolution of the bankruptcies or the insurance coverage dispute is no longer in the
15 best interest of the United States.

16 7. This joint status report is made in good faith and not for the purpose of delay
17 or for any other improper purpose.

18 Dated: November 7, 2023

UNITED STATES OF AMERICA

19 By: /s/ John R. Kresse

20 John R. Kresse
21 Trial Attorney
United States Department of Justice

22 Attorneys for Plaintiff United States
23 of America
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1 Dated: November 7, 2023

MICHAEL BEST & FRIEDRICH LLP

2 By: /s/ Evan S. Strassberg
3 (CA Bar No. 219336)

4 Attorneys for Defendants Olympja
5 Health Care LLC, Alecto Healthcare
6 Services, LLC, Sherman/Grayson
7 Hospital, LLC, Alecto Healthcare
8 Services Sherman, LLC, Laxman
9 Reddy, Matthew Williams, and
10 Jeremy Redin

11 **ATTESTATION**

12 In accord with Local Civil Rule 5-4.3.4(a)(2)(i), I attest that all other
13 signatories listed, and on whose behalf this filing is submitted, concur in the
14 filing's content and have authorized the filing.

15 Dated: November 7, 2023

UNITED STATES OF AMERICA

16 By: /s/ John R. Kresse

17 John R. Kresse
18 Trial Attorney
19 United States Department of Justice
20 Attorneys for Plaintiff United States
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